

TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: General- RFP for General Consultant

ITEM NUMBER: 6

ATTACHMENT(S): 3

ACTION: X

DATE OF MEETING: November 4, 1998

INFORMATION:

PRESENTER(S): Mr. Mitchell

EXECUTIVE SUMMARY

The contract for the general pension consultant (Pension Consulting Alliance) expires in April 1999. The general consultant Request for Proposal (RFP) describes the role of the general consultant and the services to be provided with respect to the entire investment portfolio. The RFP states that the Teachers' Retirement Board (Board) may select up to three general consultants.

The fee schedule submitted by the respondents uses both the "bundled and unbundled" format. The Board can determine the "best" method for fees to be calculated after the final selection process is completed. Detailed information regarding the RFP provided in Attachment 1 includes:

1. Timeline for the RFP
2. Purpose of the RFP
3. Services to be Provided
4. Minimum Qualifications
5. Fee Structure
6. Proposal Evaluation Criteria

As with previous RFPs, it is proposed that the contract participation goal requirement for Disabled Veterans Business Enterprise be required after the final selection process is completed. Upon submission of proposals to the California State Teachers' Retirement System (STRS), all proposers will then be required to execute a certification confirming their intent to submit the necessary documentation to STRS in the event they are selected. The successful proposer will be required to submit documentation substantiating compliance with the goal prior to the final execution of their contract.

The respondents must provide written responses to the proposal questionnaire which is provided as Attachment 2. These responses are reviewed and evaluated using the "written proposal evaluation sheet" contained on page 6 of Attachment 1. All respondents

achieving a minimum of 70% scoring are then ranked including proposed fees. The highest scoring respondents proceed to the semi-finalist (or finalist) interview segment.

RECOMMENDATION

Incorporating the elements discussed in October's Investment Committee meeting, staff recommends the Board:

1. Release the Request for Proposal as described in Attachment 1.
2. Designate intent to hire up to three (3) general consultants.
3. Compose the initial evaluation and review panel with two staff and two Investment Committee members.
4. Complete the finalist interviews and selection.

STATE TEACHER'S RETIREMENT SYSTEM
REQUEST FOR PROPOSAL

GENERAL PENSION CONSULTANT

I. INTRODUCTION

The California State Teachers' Retirement System (STRS) administers an investment portfolio with approximately \$88 billion in assets. As of June 30, 1998, the assets were invested as follows: \$36.0 billion in domestic equities; \$18.5 billion in international equities; \$2.6 billion in global; \$26.0 billion in fixed income securities; \$2.1 billion in real estate; \$2.0 billion in alternative investments; and \$1.1 billion in cash reserves. To complement the Investment Management Plan and to assist the Teachers' Retirement Board (Board) in making prudent investment management decisions, expert pension investment consulting services are desired.

II. PURPOSE

Pursuant to Education Code 22352, STRS is seeking up to three qualified firms to provide general pension consulting services for domestic and international investments. The objective of this Request for Proposal (RFP) is to provide long-term investment strategies to the Board.

III. SERVICES TO BE PROVIDED

Under the direction of the Board or designee, the services to be provided by the firm shall include, but not limited to, the following:

A. General

1. Prepare and present reports reviewing and updating STRS' investment policy, criteria, and objectives which include strategies for public (fixed income and equity) and private (real estate and alternative investments) markets. This would include strategies for domestic and international investments.
2. Provide written recommendations for amendments and/or modifications to STRS' Investment Management Plan and portfolio structure as warranted by changes in the marketplace. Provide justification for recommendations.

3. Provide information on investment managers/advisors including their philosophies, styles, fees, portfolio characteristics, firm characteristics, performance, and client base. The information should be available for a wide range of investment services including domestic and international equity, fixed income, private equity, real estate, and other specialties, including, but not limited to options and futures managers.
4. Assist the Board in establishing appropriate performance benchmarks.
5. Provide performance measurement and evaluation reports from information obtained from STRS' Master Custodian on the total portfolio.
6. Provide input on all components of the investment portfolio as requested by the Board.
7. Attend the meetings of the Investment Committee of the Teachers' Retirement Board and other meeting as required.
8. Research and make recommendations for use of potential strategies contemplated by the Board.

B. Asset Allocation

1. Provide continuous review of investment policy, portfolio mix, and investment strategy relative to changes in the capital markets and structures of similar retirement systems.

C. Manager Search and Selection

1. Participate in Request for Proposal processes as requested by the Board.

D. Performance Measurement and Reporting

1. Prepare quarterly evaluation reports on the performance of STRS' investment managers including a comparison with the performance of other managers with similar mandates.
2. Provide STRS with quarterly and annual performance analysis on the total fund including comparison to other retirement systems.
3. Provide STRS with quarterly and annual performance reports of theoretical portfolios, i.e., market indices, benchmarks, and composite total fund portfolio.

4. Present reports identified above semi-annually to the Investment Committee of the Board.
- E. Research and Analysis
1. Prepare comprehensive analyses and provide advice on specific pension issues as requested by the Board.
 2. Prepare and present analysis on current issues as they may pertain to STRS' investment portfolio.
- F. Investment Training
1. Provide training to the Board on investment topics covered under this Agreement.
 2. Participate in the annual planning and review workshop.
 3. Conduct workshops on specific issues designated by the Board.
- G. Other duties or activities as may be required consistent with and contemplated by the foregoing.

IV. MINIMUM QUALIFICATIONS

The proposer must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy each of the minimum qualifications may result in the immediate rejection of the Proposal.

- A. The firm must provide general pension consulting services to clients with assets totaling at least \$25 billion.
- B. The primary consultant assigned to the STRS account must have a minimum of five (5) years of experience providing domestic and international investment consulting services to public and/or private pension plans.
- C. As of June 30, 1998, the firm must have been in business at least one year.
- D. As of June 30, 1998, the firm must have at least one public pension fund client.

STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL
GENERAL PENSION CONSULTANT

FEE PROPOSAL

.....
Name of Proposer

Proposers must submit their fees for pension consulting services in the format prescribed below. The proposed fees shall include all costs and expenses for providing services to STRS as described in this RFP.

Proposers must complete both Sections A and B of this fee schedule. STRS reserves the right to compensate the successful contractor for services using either the bundled fee as contained in Section A, or the unbundled fee contained in Section B below. The method of payment will be determined by contract, and only one payment method will be employed at any given time.

SECTION A – BUNDLED FEES: Proposers must submit an annual fee for all services as described in Section III, Services to be Provided, of this RFP.

Year 1	\$_____
Year 2	\$_____
Year 3	\$_____
Year 4	\$_____
Year 5	\$_____

SECTION B – UNBUNDLED FEES: Please refer to Section III, Services to be Provided, of this RFP for a complete description of services required of the successful contractor.

General (domestic & international)	\$_____ (annually)
Asset allocation (investment policy Portfolio mix and investment strategy)	\$_____ (annually)
Manager Search and Selection	\$_____ (per occurrence)
Performance Measurement and Reporting	\$_____ (quarterly)
Research and Analysis	\$_____ (annually)
Investment Training	\$_____ (per occurrence)

Proposer's Authorized Signature

Date

STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL
GENERAL PENSION CONSULTANT
WRITTEN PROPOSAL EVALUATION SHEET

.....
Name of Proposer

	MAXIMUM POINT <u>SCORE</u>	PROPOSER'S POINT <u>SCORE</u>
A. PROPOSAL QUESTIONNAIRE		
Section I – Organizational Background	25	
Section II – Range of Services	15	
Section III – Asset Allocation	30	
Section IV – Manager Search, Selection, and Monitoring	15	
Section V – Reporting	15	
Section VI – Research, Analysis, and Policy Issues	20	
Section VII – Special Projects	15	
Section VIII – Database Capabilities	15	
Total Item A*	150	
B. Fees	100	
C. Semi-Finalist Interview**	45	
D. On-site Review (Optional)	pass/fail	
E. Finalist Interview	105	
GRAND TOTAL	400	

* A proposer must receive a minimum score of at least 105 points in Item A of the Proposal Questionnaire to be given further consideration.

** The Semi-Finalist Interview (and appropriate points) may be combined with the Finalist Interview at the discretion of the Teachers' Retirement Board.

Rater No. _____

Date _____

STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL
GENERAL PENSION CONSULTANT

TIME SCHEDULE:

- | | |
|--|---|
| 1. Date of Issue: | <u>December, 1998</u> |
| 2. Deadline for Submission of Written Questions: | <u>January, 1998</u> |
| 3. Final Filing Date: | <u>January, 1999 @4:30 p.m.</u> |
| 4. Prequalification Evaluation: | <u>February, 1999</u> |
| 5. Written Proposal Evaluation: | <u>March, 1999</u> |
| 6. Semi-Finalist Interviews: | <u>March, 1999</u> |
| 7. On-site Reviews/Visits | <u>To be Announced</u> |
| 8. Finalist Interviews | <u>April, 1999</u> |
| 9. Submission of Contract Participation Documentation: | <u>To be Announced</u> |
| 10. Reference Checks: | <u>To be Announced</u> |
| 11. Post Notice of Intent to Award: | <u>Immediately after selection</u> |
| 12. Award of Contract: | <u>5 business days after posting notice</u> |

GENERAL PENSION CONSULTANT
PROPOSAL QUESTIONNAIRE

I. ORGANIZATIONAL BACKGROUND

- A. Please give a brief history of your firm, including the year the firm was founded. Specify the number of years your organization has been providing pension consulting services to tax exempt organizations.
- B. Describe the ownership structure of your firm. Identify affiliated or subsidiary organization(s). Do investment professionals participate in equity ownership? If equity ownership is not available, is there a specific arrangement for sharing in the profits earned by the enterprise? Please describe.
- C. List the location of your headquarters and branch offices. State the primary function of each office.
- D. Within the past three years, have there been any significant developments in our organization (changes in ownership, personnel reorganization, new business ventures, etc.)? If so, please describe. Do you expect any changes in the near future?
- E. Within the past three years, has your organization or any officer or principal been involved in any litigation or other legal proceedings relating to you consulting activities? If so, please provide a brief explanation and indicate the current status.
- F. Are you a registered investment advisor with the Securities Exchange Commission (SEC) under the Investment Advisors Act of 1940?
- G. Are you predominately a consulting firm in the investment business or an investment firm in the consulting business? Please explain.
- H. Does your firm (or subsidiary) provide services other than investment consulting services to the investment manager community for which you receive a fee, e.g., brokerage, investment management, etc.? What procedures do you have to reduce/eliminate any conflict of interest that could occur between investment managers and plan sponsors?
- I. Please identify your ten largest clients by name, including asset values and product or services the client uses.

J. Please provide details on the number, names, and asset values of any terminated or lost client relationships in the last three years (if applicable), with reasons for the termination.

K. Please discuss your firm's plans for future growth in the pension consulting area?

L. Professional Staff

1. Provide the names of professionals who will be assigned to the STRS account including the primary consultant and principal assistant [identify the primary consultant with an asterisk(*)]. Include the length of experience in pension consulting/advisory services.

KEY PROFESSIONALS				
		Investment Experience		
Name	Title	With Firm	+ Prior	= Years

2. Provide detailed biographical data on all individuals who will represent the firm and be assigned to the STRS account as an appendix to the questionnaire.
3. Provide an organization chart showing functions, positions, and titles of all professionals in your organization. (Chart should identify relative positions within the organization of those involved in pension services.)
4. Please explain how the team dedicated to the STRS account would function, including lead person, back-up, quality control and support services. Is there one individual who will be responsible for quality control for all work performed for STRS.

5. Will the individuals assigned to the STRS account consult exclusively for STRS? If not, how many other client relationships will each individual have?
6. Please indicate the turnover of professional staff over the past five years.

II. RANGE OF SERVICES

- A. List all services that your firm provides as standard in a typical consulting and monitoring relationship. For each service please identify the associated percent of business and years of experience for the firm and/or staff.
- B. If your firm also provides portfolio management or brokerage services, please describe how conflicts of interest are managed.
- C. List all services provided to the investment manager community for which you receive a fee.

III. ASSET ALLOCATION

- A. Please describe your process for determining the appropriate asset allocation for a public pension fund. At a minimum, include the criteria for which you base your assumptions.
- B. Provide an example of a recent asset allocation study your firm prepared for a client with a similar profile as STRS.
- C. Describe your process for developing, recommending and maintaining a client's investment policy, strategy and asset mix.
- D. Describe your process for analyzing a client's investment portfolio structure. Describe your process for recommending modifications to the portfolio structure as warranted by changes in the market place or benefit obligations/assumptions.
- E. Describe how benchmarks are researched and recommended. Describe how performance is compared to similar portfolios.
- F. Has your firm ever developed benchmarks? If so, please provide a description of the benchmark developed and the method used in developing the benchmark.

IV. MANAGER SEARCH, SELECTION, AND MONITORING

- A. Describe your firm's process for searching, recommending, and monitoring external investment managers.
- B. Describe your method and resources used in analyzing and evaluating a potential manager's performance. Please include a discussion on benchmarks, comparisons with other managers and attribution analysis that is performed.
- C. Please discuss the use of performance-based fees, asset based fees, flat fees, or any other fee structures you may recommend for use with external managers. Include a discussion of the benchmarks used and the reasons for using them.
- D. Does your firm maintain information on a universe of investment managers and advisors? How many managers and advisors are contained in the universe? How is this universe maintained and kept up to date?

V. REPORTING

- A. What is included in the standard reporting package you supply to your clients?
- B. Describe your method and resources for providing theoretical analysis and evaluation of your client's portfolio performance.
- C. Describe your method and resources for analyzing, evaluating and interpreting reports from your client's master custodian.
- D. How soon after month end/quarter end are the reports available?
- E. Please include a sample of your standard reporting package.

VI. RESEARCH, ANALYSIS, AND POLICY ISSUES

- A. Describe your research and analysis capabilities.
- B. Describe the manner in which external resources and sources of information are used in the research process. How does your firm integrate internal and external research?
- C. Describe your process for monitoring and reporting on domestic and international market trends.
- D. Please provide an example of a completed project (during the past year) giving your approach and the methodology used to complete the assignment.

VII. SPECIAL PROJECTS

- A. Please describe your experience in completing special projects in situations which require the following:
- Expert advice in specialized or technical areas
 - Review, research, analysis and recommendations on time-critical and unanticipated projects or issues
 - Second opinion on key issues
- B. Describe the types of policies, procedures, and guidelines you have developed or supplied inputs to for other clients.
- C. Please include an example of a special project you performed in the past year.

VIII. DATABASE CAPABILITIES

- A. Describe your capability to provide customized reports as specified by your client.
- B. Outline the process for the generation and input of information to your system.
- C. Briefly discuss your firm's efforts in addressing the issues regarding the year 2000 and how it affects your technology.
- D. Describe any portion of your database and client reporting system which you feel is unique from that generally offered.

IX. CLIENT CONFLICT/REFERENCES

- A. Explain in detail any potential for conflict which would be created by your representation of STRS, including other client relationships which may inhibit services to STRS on a primary basis.
- B. Please list three clients as references for whom you have provided general pension consulting services. For each reference listed include client name, address, telephone number, and name of contact person.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Request for Proposal for General Consultant

Resolution No. _____

WHEREAS, the Board is responsible for managing the Teachers' Retirement Fund (Fund), a Pension Fund; and

WHEREAS, the Board desires to retain a firm that is able to provide domestic and international pension investment consulting services; and

WHEREAS, the Committee has reviewed the written material and oral presentation from staff; Therefore be it

RESOLVED, that the Committee hereby approves the following:

1. Release the Request for Proposal as described in Attachment 1.
2. Designate intent to hire up to three (3) general consultants.
3. Compose the initial evaluation and review panel with two staff and two Investment Committee members.
4. Complete the finalist interviews and selection.

Adopted by:

Investment Committee

on _____

James D. Mosman

Chief Executive Officer